

LEE COUNTY

NORTH CAROLINA

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May 1, 2006

Lee County Board of Commissioners

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Re: Budget Message
Fiscal Year 2006-07 Recommended Budget

Dear Chairman Hincks and Commission Members:

The nearing conclusion of the fiscal year ending June 30, 2006 sees the proverbial freight train known as Lee County Government beginning to take the long slow arch that will ultimately lead to the turn-around and rebirth of County services. The previous 18 months of Board of Commissioner directives are now beginning to display their wisdom; the workforce shows renewed vigor, reliance on fund balance reserves for operational expense has slowed, and community support is steadily increasing. The Board is charting a course for Lee County to become a professional and progressive local government.

This time last year, the Board struggled with a decision to raise property taxes by nearly 18 percent to 79-cents per \$100 of valuation. The implications of this decision included the stabilization of the County's financial status and adequate funding for school system debt and operational expenses. While not a popular act, this decision did accomplish all of these goals. Today, the school system is funded at 111.4 percent of the state per-pupil average for current expense funds and budgeted use of fund balance reserve has decreased by 50 percent. Additionally, in concurrence with its adopted financial policies, the Board has begun to appropriate funds to a capital reserve account to pay for future facility construction projects. These activities illustrate the County's intent to control its destiny and act with foresight and vision when conducting public affairs.

County department heads responded to the Board's newly established vision by creating an organizational work plan for FY 2005-06. The plan's implementation has relied heavily on the participation of committees comprised of all levels of County

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employees. The effect has been that employees are empowered to make decisions that enhance their enjoyment and productivity in their daily work. Most of the nine (9) initiatives are nearing completion and are ready for integration into daily operations. Many, such as the employee orientation program and performance appraisal/merit pay system, will take years to fully realize the true impact on the workforce. The County's employees are doing their part to participate in achievement of the Board's vision statements. It is management's responsibility to ensure that these new initiatives are effectively implemented for the organization's benefit.

The conclusion of the 2005-06 fiscal year will see the continued, but reduced, reliance on fund balance reserves to achieve balanced budget status. The County began the year with an appropriation of \$2,663,425 from reserves; this amount was largely used for one-time purchases and not for ongoing expenses. It is estimated that the County will use \$1,328,212 of this amount to end the fiscal year. If so, total available General Fund balance will end the year at \$8,677,415, or 16.2 percent of FY 2005-06 projected expenditures. The Board's policy states that it will strive for a fund balance of 18 percent and will not allow reserves to drop below 14 percent. Fund balance appropriations in this proposed budget are projected to reduce reserves dangerously close to the Board's minimum threshold. Close scrutiny of fund balance use must continue to avoid a precariously low reserve level.

The recommended 2006-07 fiscal year budget contemplates a \$2,433,953 fund balance appropriation for one-time expenses and in consideration of the full-funding of salaries, which routinely allow for a \$1,500,000 "float". Eligible fund balance-use projects are routinely viewed as purchases that have a useful life of more than one year and are not "consumable". Traditionally, the acquisition of motor vehicles has not been viewed as an activity eligible for fund balance appropriation. However, as in FY 2005-06, this budget proposes the use of fund balance for vehicle acquisition. It is hoped that such activity will cease when the 2007 revaluation is implemented, and the Board has the opportunity to set a tax rate sufficient to fund County operations for the entire four-year cycle.

The total FY 2006-07 proposed budget reflects an expenditure increase of .43 percent to \$56,366,524. It is noteworthy that the Consumer Price Index (CPI) for the preceding calendar year is 3.7 percent; therefore, it is proposed that County government expenditures increase less than the average cost of goods and services. Unfortunately, the tax base is projected to grow at less than the CPI also. Property tax revenue is projected to grow only 2.1 percent over the 2006-07 budget year. The more aggressive auditing of business personal property and better coordination between the Tax and Inspections Departments will hopefully uncover unrealized revenue. Regardless, the lack of significant tax base growth did make the balancing of this proposed budget considerably difficult.

As alluded above, the County continues to struggle with funding all of its obligations to itself and constituent governments within the parameters of the current tax rate. Last year's 12-cent tax rate increase was hoped to be sufficient to fund operations until the 2007-08 fiscal year, at which time a real property revaluation would be complete and hopefully realize a considerable tax base increase. While this recommended budget

requests that the 79-cent per \$100 of valuation rate remain unchanged, expenditures have been considerably restrained throughout the General Fund. No service, program, department, or contribution has been shielded from cuts; all have been requested to continue another year without significant change. In many cases, departments are asked to provide the same services with less appropriation than in the previous year.

One expenditure category that is proposed to increase above that of any other government function is Education. Represented in this classification are the Lee County School System (LCSS) and Central Carolina Community College (CCCC). This category's 4.8 percent increase can be largely attributed to current expense funding for LCSS. The recommended \$12,666,167 contribution is considerably less than the \$13,651,805 requested by the Board of Education. However, the County did increase LCSS current expense funding by \$2.3 million (23.3 percent) in the FY 2005-06 budget. The recommended LCSS Capital Outlay contribution is \$770,417, a 3.7 percent increase over the previous year. The current tax rate and base will not support a double digit percentage education appropriation increase two years consecutively. The Board of Commissioners attempted to devise a formula for funding education expenses but the Board of Education never agreed to its use. A concrete funding relationship would assist the County and the constituent educational institutions in determining future year funding levels to minimize the potential for animosity.

The County's compulsory contribution to the State of North Carolina's Medicaid program continues to consume a significant expenditure percentage when compared with other non-educational obligations. The FY 2005-06 budget of \$2,662,446 represents 4.7 percent of total General Fund Budget and is the equivalent of 7.2-cents of the tax rate. Counties have made progress with the North Carolina General Assembly in finding alternative means for relieving local governments of this encumbrance, but no final action has been taken. Various proposals have surfaced and been debated; the latest from the House Select Committee on Health Care's Medicaid Subcommittee which proposes that \$65 million be dedicated for targeted relief from the Medicaid burden. If adopted, Lee County would receive \$461,127 in Fiscal Year 2006-07 to offset the anticipated expenditure of \$2,889,980. While it is not as comprehensive as previous proposals, nor provides the conclusion of local contribution, it is the most realistic option to surface thus far. The County, via the North Carolina Association of County Commissioners (NCACC) and efforts of its Legislative Liaison Committee and General Assembly delegation, must continue to seek elimination of this expenditure from the local budget.

The Lee County Board of Commissioners originally established its Legislative Liaison Committee to represent the County in an attempt to receive General Assembly authorization to levy an additional one-half (½) percent local sales tax for school construction. House Bill 756 and Senate Bill 458 were introduced to provide the option for the additional County-wide sales tax. If enacted, the County will receive the ability to generate an estimated \$2.4 million in additional revenue to fund school construction projects. Since the filing of these two bills, the House of Representatives did approve said authority for Lee and 43 other counties. The Legislative Liaison Committee has considerable work ahead to free the Bill from the Senate Finance Committee and move the Bill to the Senate floor for a full vote.

A matter that is viewed to have direct impact on the County's desire for the additional sales tax is the recent implementation of the North Carolina Education Lottery. As that a percentage of the proceeds are earmarked for school construction, it is widely speculated that the lottery's creation has weakened Counties' position that an additional sales tax is the only viable option to produce supplementary school construction revenue. The NCACC, at one time, estimated that Lee County will receive more than \$1.3 million in the first full year of lottery start-up. As that the lottery started a full quarter into the calendar year, that it has yet to operate all of the proposed games, and that the distribution method has yet to be officially determined, no lottery proceeds are realized in this proposed budget. However, if such are received during the course of the 2006-07 fiscal year, it is recommended that all proceeds be earmarked for capital reserve fund contribution to ensure that sufficient funds are in place to pay for planned school construction projects.

The Board has repeatedly stated its support and commitment to the employees of Lee County. Last year, the Board instructed staff to ensure that the County workforce is adequately and fairly compensated when compared with its peers in both the public and private sector. The resulting Pay and Classification Study did provide market-based pay adjustments to many employees effective January 1, 2006. Additionally, the Board established a policy that the annual Cost of Living Adjustment (COLA) to all employee salaries would be determined by a US Department of Labor index. By designating this unbiased economic indicator, County employees are assured that their salaries will keep pace with inflation and that such decision is made external to annual budget pressures. This budget does account for the study and annual COLA of 3.7 percent in its total payroll of \$18,423,866, an increase of \$900,200 (5.1 percent) over FY 2005-06. Without this provision, employees effectively take home less money to cover the increasing costs of food, shelter and other factors of daily living.

An employee benefit that is projected to incur a significant increase is the County's worker compensation insurance coverage. As of this writing, staff is anticipating a 60 percent increase in said insurance; an increase of \$194,538. The County has advertised a Request for Proposals (RFP) for worker's compensation and property/liability insurance that will hopefully provide relief to this unusual and substantial increase. Fortunately, the proposed budget does not anticipate any increase in employee medical insurance rates.

For years the Board has provided a health insurance benefit for retirees that serve at least 15 continuous years with Lee County. It is estimated that this benefit will represent a \$171,500 expenditure in FY 2005-06; an increase of approximately \$35,000 over the previous year's expenditure. The 2006-07 fiscal year realizes a total possible exposure of \$292,800 for this retiree benefit; however, the recommended budget proposes only \$225,000. Presently, 45 former employees receive this benefit. It is anticipated that in the next five (5) years an additional 50 employees will be eligible to retire with full retirement benefits and benefit from the program. There will also be 19 employees during the next 5 years that can retire with reduced retirement benefits and qualify for the insurance benefit. In light of increased medical insurance costs and the increasing number of retirement-eligible employees, the Board of Commissioners should monitor this program closely and be prepared to modify such if it becomes cost prohibitive.

The County's Human Services functions continue as the backbone of how the County affects the lives of its citizens. More than \$17 million of this proposed budget is dedicated to Health, Social Services, and Senior Services departments. Unfortunately, this budget realizes less than \$8.8 million in revenue to account for such services; a decrease of \$532,685. Social Services Department functions account for approximately \$368,000 of the lost revenue. The State's refusal to re-appropriate Pre-trial Release program grants account for a \$73,000 loss. Regardless, the Board of Commissioners chose to operate the service from General Fund revenue in an attempt to reduce incarceration expenses. Additionally, the State is no longer funding the Family Centered Caseworker program, resulting in lost revenue of \$67,584. Lower projections received from the State for Day Care Funds also contribute to the Social Services related revenue shortfall.

Another major contributor to lost revenue in the Human Services category is the budgeting of \$262,471 in revenue for the Health Department's Dental Program. The department has experienced great difficulty in recruiting and retaining qualified dentists, which has required the use of temporary employees that have less productivity, and therefore, incur less billable/reimbursable costs. This lower productivity is attributable to the program realizing operational revenue that is less than half of its total County appropriation for FY 06-07. Additionally, the County entered into a lease for space in the W.B. Wicker School Community Center and has budgeted \$30,982 for such. Expenditures significantly outpace revenue for this program. It is understood that the County embarked upon this program in FY 2000-01 with the perception that the dental clinic would be self-sufficient through user fees and Medicaid reimbursements. The Board may wish to entertain discussion with the Board of Health as to their plan to return this program to self-sufficient status.

The Health Department's submitted budget does propose additional revenue through the increase of Environmental Health Division fees charged for on-site septic system testing and food service establishment plan review. The additional revenue gained by these increases is proposed to be used to provide a nine (9) percent salary increase to Division employees. As the Board is aware, the County has experienced difficulty in recruitment and retention of qualified people in this field. Recently, two employees resigned to accept similar positions in a neighboring county. The Board of Health and Health Director believe that these proposed increases will allow the County to better perform inspection functions. A comparison of the Environmental Health fees charged in neighboring counties and that proposed herewith is provided on the following page.

Environmental Health Fees by County

Permit Type	Harnett	Moore	Chatham	Lee (current)	Lee (proposed)
2 bedroom type II	\$150	\$380	\$340	\$200	\$275
4 bedroom type II	\$150	\$632	\$465	\$225	\$300
Re-evaluation	\$25	\$50	\$100	\$50	\$100
Repair	\$25	\$50	\$100	\$0	\$0
Food Service Plan Review	\$200	\$100	\$200	\$0	\$125

As the County begins to exhibit signs of an increased population growth rate, the Board may desire to increase fees associated with all development permitting. In light of recent US Census Bureau statistics that place Lee County as the 14th fastest growing North Carolina county, the organization should prepare for an increase in requested developmental services which include Planning, Inspections, and Environmental Health functions. Currently, City/County Inspections Department fees do not produce sufficient revenue to pay for the services provided. On average, Inspections Department fees generate approximately 80 percent of the service cost. The remainder is absorbed by the general property tax, thereby arguably creating a subsidy for the development community. It is recommended that inspections related development fees be set and budgeted on a 100 percent cost recovery basis.

Previously mentioned was this budget's reliance on fund balance to fund traditionally ineligible expenditures such as vehicles. For several consecutive years the County has budgeted motor vehicles as a reserve-eligible expenditure. This budget includes approximately \$450,000 of reserve appropriation for vehicle acquisition. More than half of said amount is for Sheriff Department patrol car replacement. The Board did engage in several discussions regarding replenishment of the County's motor fleet; only Public Safety related purchases have been made since early this decade. This budget proposes the replacement of 12 vehicles that meet the policy's standard for age and mileage. It is hoped this is the first step in re-establishing the motor vehicle change-out policy that has remained unused since the loss of State revenue reimbursements in 2002.

The most significant policy statement that the Board will make this year, other than annual budget implementation, is the adoption of a Capital Improvements Program (CIP). The Board directed staff to recreate the annual CIP process to produce a practical document instead of a departmental "wish list" that fails to consider the true financial impact of implementation. The Board likewise attacked the project with vigor and adopted a \$47 million CIP that will direct the construction of a middle school, County administrative offices, completion of Tramway Road Park, and numerous improvements at the CCCC campus. This budget appropriates \$154,000 for the first interest payment on the administration building and park debt issuance. As

communicated in the CIP transmittal letter, it is anticipated that the addition of the equivalent of approximately three cents to the tax rate will be necessary in FY 2007-08 to fund these capital improvements.

Another recently adopted policy is the change of the real property revaluation cycle from the traditional eight (8) year schedule to a four (4) year program. The completion of the County's first four-year revaluation will be December 31, 2006. On January 1, 2007, new values will become effective and be used for the succeeding four fiscal year ad valorem tax revenue projections. The County did recently contract with a third-party consulting firm to assist with the creation of the schedule of values for the 2007 revaluation. This \$113,575 FY 2006-07 expense may be found in the Revaluation Department budget. If approved as presented, it is projected that the 2007 revaluation project will be completed at a cost of \$693,071, or \$22.81 per parcel.

In November of 2005 the Commissioners established the Lee County Rural Fire Protection Improvement Task Force to make recommendations regarding the future provision of County fire protection services. As aware, the County had contracted its Fire Marshal and inspection responsibilities to the City of Sanford until the current fiscal year. As a result, the County has not had a liaison, volunteer or otherwise, to coordinate with the nine (9) volunteer fire departments. The task force recommended a number of both modest and substantive changes aimed at defining the Fire Marshal's responsibilities and ensuring a cohesive model for providing rural volunteer fire protection. One of the first initiatives to be implemented from the task force's report is the creation of a Fire Advisory Board to make recommendations to the Commissioners regarding fire service matters, including annual funding amounts. As of this writing, the Lee County Fire Advisory Board (FAB) has met twice and is considering the implementation of a county-wide service district as well as recommending FY 2006-07 funding levels for each of the fire districts.

This proposed budget also includes full funding for the Fire Marshal's Department with offsetting revenue contributions from each of the fire district's tax proceeds. The Board did defer a decision to hire a full time inspector in order for a new Fire Marshal to be hired and the FAB to make a recommendation concerning the matter. Therefore, this budget proposes funding the continued limited assistance of a contract inspector and hiring a full time inspector after January 1, 2007. The Fire Marshal budget also includes the use of lapsed salary funds to pay for the purchase of a vehicle for the newly reclassified department head Fire Marshal position.

The 2006-07 fiscal year represents the introduction of a performance measurement budgeting system designed to maximize the efficient use of public funds while producing higher quality services. Performance measurement is part of the County's overall performance management program; a system designed to improve community services by invoking accountability, responsive customer service, and insightful budget forecasting resulting from high departmental performance. In order to correlate performance measures with budgetary information, this year's budget format has been modified to reflect the integration of this program.

In this first year of introduction, 18 departments were asked to make a commitment to participate by enlisting at least one program or service to measure. The process began through the creation of department mission statements which are supported by goals, objectives, and measures. Included in this FY 2006-07 proposed budget is the department specific groundwork which will enable County employees to work towards these performance measurement targets.

The data collected will provide the ability to ascertain benchmarks by which to measure the County's effectiveness and efficiency. Departments are encouraged to work together to find alternatives that benefit more than one group in reciprocal expenditure areas. In order to promote employee/departmental achievement, an rewards program will be devised. An incentive for employees to generate savings for their department will not only result in department benefits but will also result in the more efficient use of County funds.

Performance measurement budgeting is a new direction for Lee County; one that will inevitably lead to a comprehensive performance management system to unite the vision and performance of employees, management, and the Lee County Board of Commissioners. The Lee County Board of Commissioners has expressed its intent to promote an organization that is accountable, responsive, and insightful to community needs and County resources. It is through progressive management tools such as performance measurement budgeting, that a successful Lee County government will emerge. This 2006-07 proposed budget suggests the commencement of this earnest approach to establishing a greater correlation between departmental performance and budget resources.

In accordance with the North Carolina Budget and Fiscal Control Act, the County of Lee's budget for the fiscal year beginning July 1, 2006, is presented herewith for your review and consideration. North Carolina General Statute (NCGS) 159-13(a) directs that the Budget Ordinance and tax rate adoption take place by July 1, 2006.

On the same day the budget is presented to the governing body, the Budget Officer is required to file a copy of it in the office of the Clerk to the Board for public inspection and schedule a public hearing. In addition to the Clerk's office, a copy of this proposed FY 2006-07 budget is available at the Suzanne Reeves Library on Hawkins Avenue in Sanford. The public hearing for this recommended budget is scheduled for May 15, 2006, in Courtroom #4 at the Old Lee County Courthouse. NCGS 159-13 specifies that not earlier than 10 days after the budget is presented to the governing body and not later than July 1, the governing body shall adopt a budget ordinance and levy a tax rate. Work sessions for the Board to contemplate this proposed budget are scheduled to begin May 8, 2006. It is hoped that deliberations will be complete and that the budget ordinance may be adopted at the June 5, 2006, regular Board meeting.

The drafting of this recommended budget has taken many hours of work and dedication from many employees. Considerable thanks and praise is extended to Finance Director Lisa Minter and Budget Analyst Patricia Coleman for their diligence in providing the data contained in this document. Additional thanks are conveyed to the

department managers who submitted realistic budgets and reasonable requests in a timely fashion.

In the following pages you will find a more detailed account of this FY 2006-07 proposed budget. I encourage you to review such and contact me if a specific explanation is required. A comprehensive presentation of the document and the proposals contained within is scheduled for the May 1, 2006, 9:00 a.m. regular meeting of the Board.

It has been a pleasure working with each of you, the department heads and staff in our quest to advance this community toward days of prosperity. The County at-large, and the organization itself, are poised to experience a bright future. The County has faced many challenges and will face many more along its road to becoming a standard bearer for professional local government. The proposed budget presented herewith is a major milestone in this journey. I look forward to the next year and working with you to provide a better tomorrow for all citizens of Lee County.

Sincerely



David M. Smitherman
County Manager/Budget Officer